FISCAL NOTE

Bill #:	SB0462	**Title:**	3-year depreciation for renewable resources recovery and utilization equipment
Primary Sponsor:	Depratu, B	**Status:**	As Introduced

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2004 Difference	FY 2005 Difference
Expenditures:		
General Fund	$81,617	$62,912
Net Impact on General Fund Balance:	($81,617)	($62,912)

☐ Significant Local Gov. Impact
☐ Included in the Executive Budget
☐ Dedicated Revenue Form Attached
☒ Technical Concerns
☒ Significant Long-Term Impacts
☒ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. This bill allows taxpayers, for purposes of the individual income tax and the corporation license tax, to depreciate certain property using the straight-line method over three years in lieu of any other method of depreciation.
2. Qualifying property is tangible personal property used to perform "recovery and utilization activities for renewable and reclaimable resources". This includes tangible personal property that is used to:
   a) perform the above activities in a forest, wildland, or storage location;
   b) transport the resources from their location to a point of further use; and
   c) process or reclaim the renewable and reclaimable resources.
3. "Renewable and reclaimable resources" include, *but are not limited to*:
   a) slash and forest debris incidental to activities of timber harvesting, forest health, and fire prevention; and
   b) nonhazardous solid material that has useful properties after serving a specific purposes and that might normally be disposed of as solid waste.
4. The Department of Revenue is required to specify by rule the types of property that would be eligible for the depreciation method allowed under this bill.
5. The bill is effective October 31, 2003. Taxpayers will first use the accelerated depreciation provided for in this bill for equipment purchased in tax year 2004 and report the accelerated depreciation on returns filed in fiscal 2005.
6. It is not possible to determine the revenue impact from this bill. It is not clear what equipment this bill would apply to (see Technical Note #1). However, the bill is written is such a fashion that the bill could apply to a very wide variety of equipment and motor vehicles. At a minimum, it is assumed that this bill

would apply to virtually all equipment used in the forestry and wood products manufacturing industries, including, but not limited to: skidders, limbers, logging trucks, sawmills, wood chippers, wood chip haulers, and all other types of equipment and vehicles used in this industry. In addition, the bill would apply to all equipment and motor vehicles used in the recycling business to process and transport nonhazardous materials such as bottles, cans, newspaper, tires, etc. Conceivably, the bill could apply to a wide variety equipment used in other industries as well.

7. The bill is silent as to what property the new depreciation schedule would apply to. Generally, proposals of this nature apply to property first placed into service after a specific date, but this bill would imply that the new schedule could apply to any property at any point in time. This would significantly increase the revenue reduction associated with the bill.
8. It is not known which taxpayers would opt to keep separate books – one for the state and one for the federal government – to track the accelerated depreciation allowed under this bill, or if the tax benefits at the state level would warrant the additional expense associated with having to keep separate accounting records for the same piece of property. It is not known if the taxpayers using this equipment and taking the accelerated depreciation would be in a taxable position in any event, and even if they were at which marginal tax rate the difference in depreciation would apply.
9. Over the long run, this bill is revenue neutral, with tax decreases in early years replaced by tax increases in later years for taxpayers using the accelerated depreciation provided for in the bill (see Long-Range Impacts section). Given the 3-year method provided for in this bill, the largest revenue reductions from this bill are likely to occur in the period fiscal 2005 through 2008, during which time revenues could be reduced by millions of dollars; after that time revenues would likely be higher than they otherwise would be under current law, but it could take several years to eventually return to a time frame when the impacts of the bill are negligible, depending on the normal depreciation schedules of the equipment that would take advantage of this bill.
10. The Department of Revenue would incur additional administrative costs of $10,948 in fiscal year 2004 to modify and re-program the individual income tax and corporation license tax systems to allow for variations in federal depreciation schedules for state tax purposes.
11. Variations in the depreciation schedules used for federal and state tax purposes will also require increased administrative expenses for auditing tax returns. The Department of Revenue would need 1.5 additional audit FTE in fiscal 2004 and 2005 for total additional administrative expenses of $133,581 over the biennium.

FISCAL IMPACT:	FY 2004 Difference	FY 2005 Difference
FTE	1.50	1.50
Expenditures:		
Personal/Contracted Services	$64,131	$56,954
Operating Expenses	5,886	5,958
Equipment	11,600	0
TOTAL	$81,617	$62,912
Funding of Expenditures:		
General Fund (01)	$81,617	$62,912
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	$(81,617)	$(62,912)

Fiscal Note Request SB0462, As Introduced
(continued)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
No impact.

LONG-RANGE IMPACTS:
The revenue reductions stemming from this bill will occur primarily during the period fiscal 2005 through 2008, and will then begin to decrease and eventually turn positive over time. In the long-run, this bill is essentially revenue neutral, as accelerated depreciation taken in the early years is offset by no depreciation in later years; years in which there would have been some depreciation taken under current depreciation rules.

TECHNICAL NOTES:
1. As the bill is drafted, it is very difficult to tell precisely what equipment would be eligible for the accelerated depreciation allowed in the bill because of the lack of specifics regarding this equipment. There is no definition of what constitutes "recovery and utilization activities"; neither is there a clear definition of what constitutes "renewable and reclaimable resources". Although the bill gives two examples of what this term would include, it also provides that the term is not limited to these two items. These phrases could be interpreted in either a very narrow or very broad fashion.
2. The bill is silent regarding the timing of which property the bill would apply to. By not specifying that the bill applies to property *initially placed into service after a specific date*, the bill opens up the possibilty for churning assets, whereby single pieces of property could qualify for the accelerated depreciation more than once simply by transferring the property between related or unrelated parties.
3.

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